



**GLOBAL  
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ORGANIZED CRIME

# CASHING IN ON CONFLICT

ILLICIT ECONOMIES AND  
THE MYANMAR CIVIL WAR

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## SUMMARY

**F**or over 60 years, illicit economies have fuelled Myanmar's insurgencies and ethnic conflicts, shaping the trajectory of politics and conflict in the country while also influencing regional geopolitics. In addition to having wrought severe harm on the country's natural environment, criminal economies also pose significant threats to human security. Yet they have been central to power dynamics in Myanmar for decades, and continue to perform a pivotal role in the current conflict. Criminal actors are no longer seen solely as spoilers of peace, but also as partners in peace.

This paper provides a snapshot of changes in Myanmar's illicit economies following the February 2021 coup in the context of their interconnections with armed conflict, the so-called 'crime–conflict nexus'. It also explores the relationship between illicit economies and power dynamics, and the impact on the country's history of conflict and ceasefires. The outlines the importance of addressing the country's illicit economies for Myanmar to move towards sustainable peace and a national identity, and to avoid the risk of renewed fighting, whether between ethnic groups competing over control of markets or between the ethnic groups and a future government in Naypyidaw.

### Key points

- Calls for constructive dialogues to end the conflict in Myanmar fail to consider the seemingly contradictory role of illicit economies in the country: at the one end a barrier to peace while on the other creating conditions that give a semblance of peace.
- Owing to the extent to which the illicit economy is intertwined in Myanmar's political structures, it is possible that local political actors with interests in criminal markets will become national political leaders in a brokered peace settlement or democratic process. If this were to happen, regional and international actors will need to explore options on how to incentivize such actors to dissociate themselves from the criminal markets.
- The dismantlement of criminal markets needs to be an aim of any future political settlement while it should be acknowledged that any attempt to act against the interest of the illicit economies would be an intensely political act, which would bring significant risk to peace and stability in Myanmar.

- Addressing the country's illicit economies as part of a future ceasefire negotiation and peacebuilding programme will ensure that the mistakes of the past, such as the use of illicit economies as bargaining chips for peace, are not repeated, thus enabling steps towards breaking Myanmar's crime–conflict nexus.
- Any resolution, whether federal or regional, will have to rebuild both institutional and societal forms of resilience, and this is a defined area in which the international community, and UN system, could lend support.

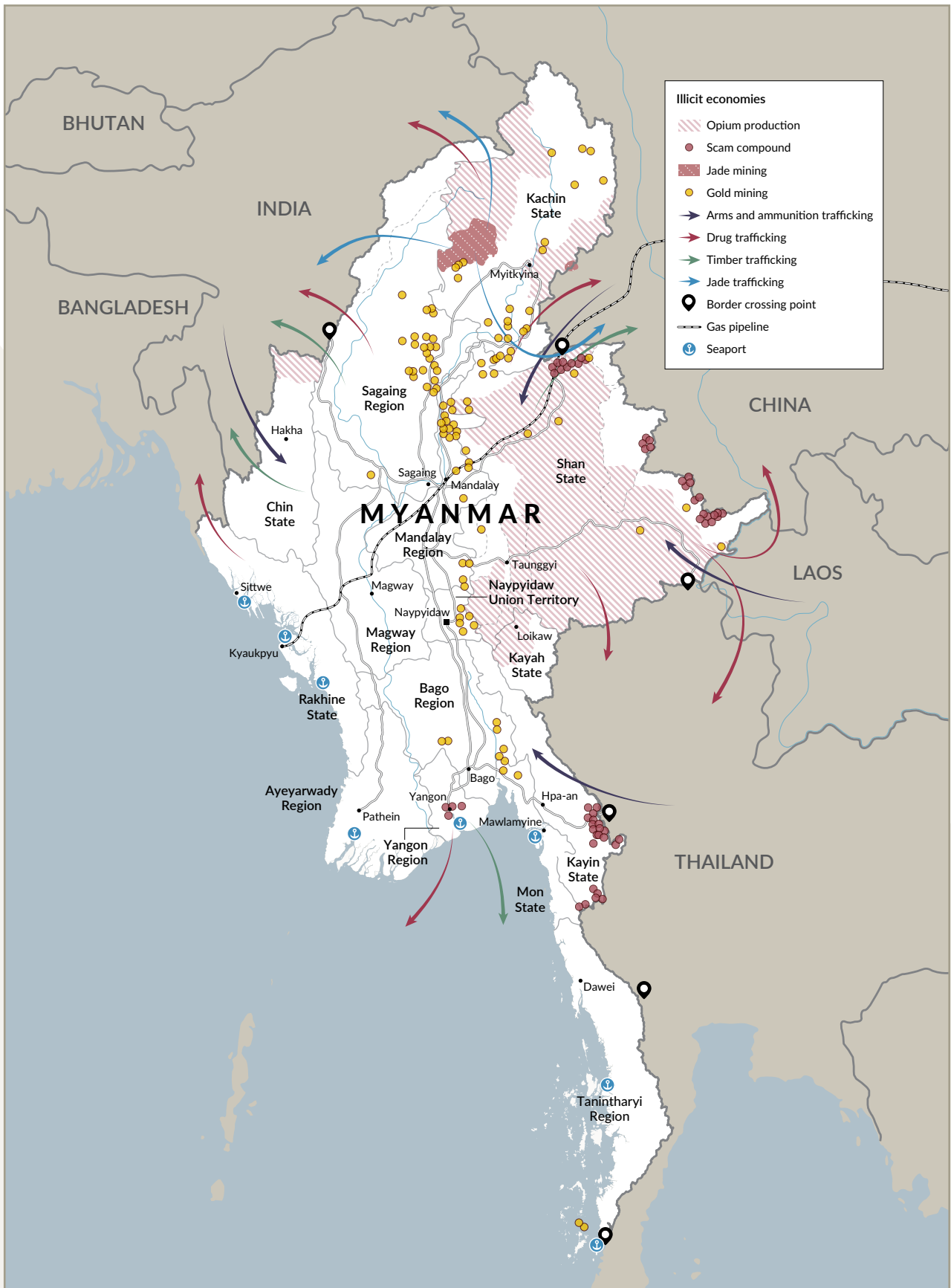


## BACKGROUND: A ‘RAMPANT ILLICIT TRADE CRISIS’

In April 2024, at the UN Security Council's (UNSC) first open briefing on Myanmar since 2019, the Department of Political and Peacebuilding Affairs and the Office for the Coordination of Humanitarian Affairs warned that Myanmar has a ‘rampant human trafficking and illicit trade crisis with global implications’.<sup>1</sup> Some of the markets are well established, such as the illicit drug trade, while others, such as cyber scam centres, have grown in scale and impact in recent years. Following the Council's meeting, the UN appointed a Special Envoy on Myanmar to engage with the Association of Southeast Asian Nations (ASEAN), UN member states and stakeholders to ‘advance towards a Myanmar-led political solution’ to the crisis.<sup>2</sup>

However, during the meeting, Council members disagreed on whether the situation in Myanmar warranted greater attention from the UNSC, with many emphasizing the importance of ASEAN in facilitating a solution to the crisis. This pursuit by some states is influenced by an earlier push, in 2021, which saw the development of the ‘five-point consensus’ plan between ASEAN and the State Administration Council (SAC), the senior leadership body of Myanmar's renewed military-led government. Yet, by 2024, it was still not clear how best to approach the crisis while maintaining ASEAN's principles of non-intervention and consensus building. The SAC's decision to row back on its commitment to the five-point consensus has greatly undermined the potential for progress, especially given its stance that the plan will be considered only once the security situation allows,<sup>3</sup> a position that, at the time of writing, seems unachievable owing to the SAC's deteriorating military position, with the military government now controlling less than half of Myanmar territory.

There have been no further open briefings on Myanmar since April 2024, with council members instead meeting in private. The UK, as penholder on Myanmar at the UNSC, circulated a draft resolution in August 2024 reportedly calling on all parties to end their violence against civilians, for the full implementation of the ‘five-point consensus’, and for countries to stop supplying weapons and fuel to the Myanmar military. Although negotiations are expected to be difficult, if adopted this would be the first resolution to be agreed since the adoption of Resolution 2669 in December 2022. Following the tabling of this resolution, Myanmar's ambassador to the UN warned that ‘transnational organized crime fuelled by the military junta in the complete absence of the rule of law [has resulted in] the enormous suffering of Myanmar people at an unprecedented level’.<sup>4</sup>



**FIGURE 1** Locations of illicit economies and key flows.

It is important to note that the military is not the sole perpetrator of organized crime in Myanmar, but organized crime is nevertheless inflicting severe political, economic, physical and environmental harm on Myanmar and its people.

Although the 'five-point consensus' calls for constructive dialogues among the parties to seek a peaceful solution, it fails to consider the seeming contradictory role of illicit economies in Myanmar: at the one end a barrier to peace while on the other creating conditions that give a semblance of peace. The UN's warning about illicit trade should not be seen as it posing a secondary risk associated with conflict; rather it is integral to internal politics and power struggles. The loss of central authority by the SAC will create new opportunities for the various ethnic groups fighting against the military government to build unity in an environment where divide-and-conquer tactics are systematically deployed. Such an outcome will likely not only depend on but also deeply impact illicit economies across Myanmar. Therefore, for Myanmar to move towards sustainable peace and a national identity, there is a need to address these criminal markets.

The current fighting is a hybrid of historical, regionally specific conflicts and recent uprising against the SAC, which was incited by state violence against protesters following the latest coup on 1 February 2021. On 27 October 2023, the conflict escalated considerably following a coordinated military offensive known as Operation 1027. This event brought about a series of military defeats and a significant loss of territory for the SAC. The pre-existing regional and ethnic fragmentation has become increasingly varied, with new alliances forming alongside rapidly shifting conflict dynamics.<sup>5</sup>

While some members of the UNSC seek to promote peace through political solutions to the crisis, the role of illicit economies in Myanmar's complex patchwork of regional economies and power dynamics need to be better understood. These largely stem from a combination of ceasefire agreements brokered during late 1980s and early 1990s and the creation of the border guard forces in the 2010s.



Members of the Ta'ang National Liberation Army, one of Myanmar's many ethnic armed groups, stand guard at a checkpoint in Kyaukme in Shan State.  
© *Stringer/Anadolu Agency* via Getty Images



As part of the ceasefire agreements, the Myanmar military – the Tatmadaw – allowed ethnic rebel groups, also known as ethnic armed organizations (EAOs),<sup>6</sup> to trade in any product, including drugs and environmental resources, in exchange for a cessation of hostilities. As a result, border regions such as Kokang, Mongla and Wa experienced a scaling of criminal activity, generating wealth for both themselves and the Tatmadaw. This acted as a stabilizing factor between ethnic groups and the Tatmadaw, allowing for a semblance of relative peace to develop.<sup>7</sup> The Myanmar military government adopted a similar approach between 2008 and 2010 when setting up border guard forces led to some EAOs falling under regional command structures of the Tatmadaw. Therefore, from long-standing illicit drug markets to the more recent phenomenon of cyber scamming,<sup>8</sup> illicit economies have been central to the power dynamics in Myanmar, and continue to perform a pivotal role in the current conflict.

Although these earlier ceasefires are no longer in force (except those with the United Wa State Army and the National Democratic Alliance Army), the illicit economies and power dynamics that underwrote them remain – and continue to contribute financial resources to all sides of the conflict. To develop a sustainable resolution to the current conflict and to avoid the risk of renewed fighting, whether between different ethnic groups over control of markets or between the ethnic groups and a future government in Naypyidaw, illicit economies must be considered as part of any future ceasefire and peacebuilding effort.

The lack of open discussions on the conflict in Myanmar at the UNSC, especially on the subject of illicit economies, is regrettable, as such political exchanges are integral not only to an understanding of the ongoing crisis but also for the development of solutions. Given the worsening humanitarian crisis and the national and global impact of Myanmar's illicit economies – shown to be the most prolific in the world<sup>9</sup> – it should urgently be brought onto the agenda of the UNSC.

This paper provides a snapshot of changes in Myanmar's illicit economies following the February 2021 coup and the associated impact of these for the country's neighbours and the wider community. The brief is not an exhaustive description of all illicit markets and their structures, but rather focuses on the most salient aspects for policymakers assessing the challenge of the economies specific to the situation in Myanmar.

The paper begins by providing an overview of the key illicit markets in the context of their interconnections with armed conflict, the so-called 'crime–conflict nexus'. Next, it explores the relationship between illicit economies and power dynamics, and the impact on the country's history of conflict and ceasefires. It ends by outlining the importance of addressing the country's illicit economies as part of a future peace settlement.

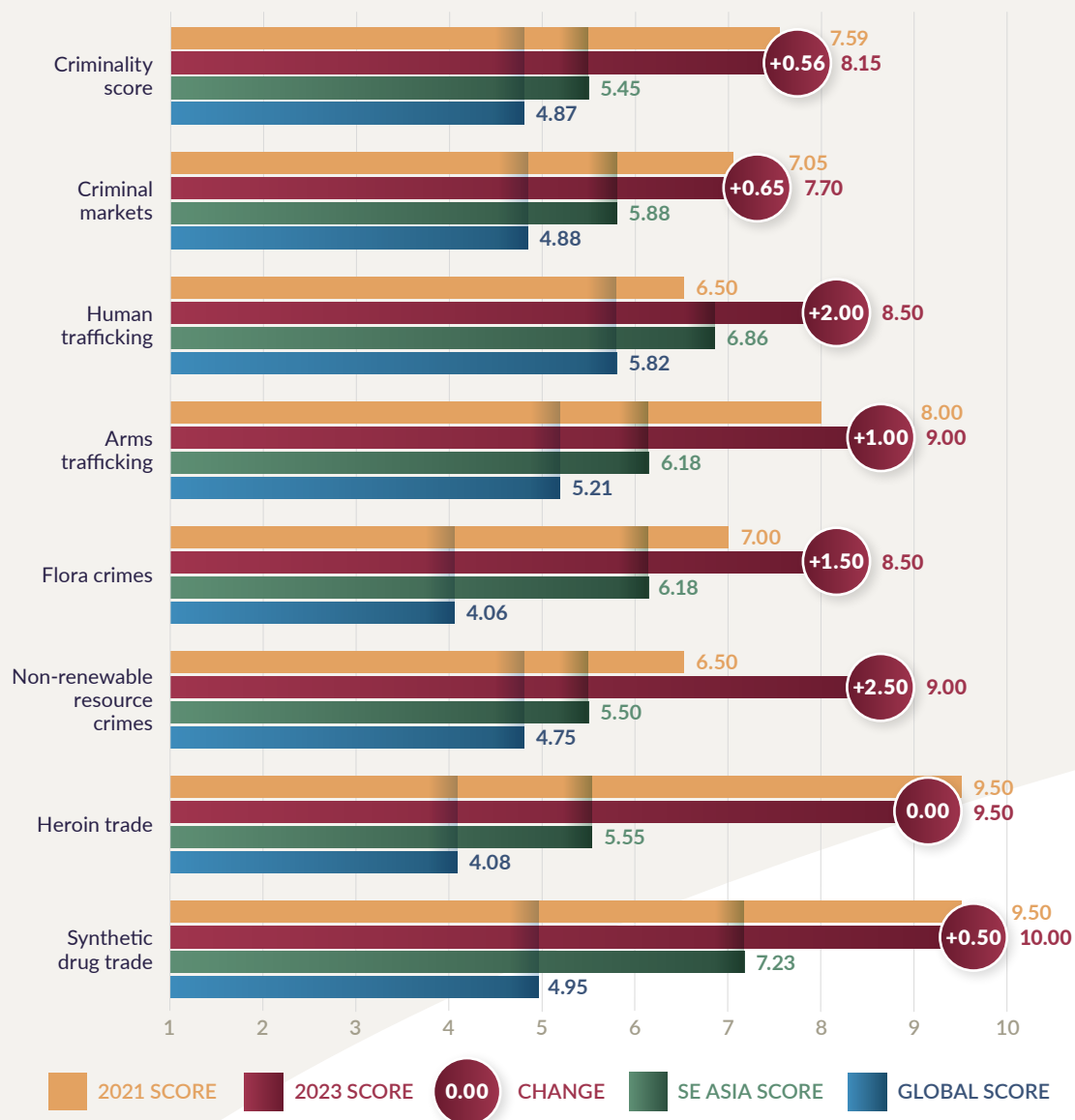


## ILLICIT ECONOMIES SINCE THE FEBRUARY 2021 COUP

**F**or over 60 years, Myanmar's illicit economies have been intertwined with the country's peace and conflict dynamics. They have fuelled Myanmar's insurgencies and ethnic conflicts, shaping the trajectory of politics and conflict in the country while also influencing regional geopolitics.<sup>10</sup> In addition to having wrought severe harm on the state's natural environment, they also pose significant threats to human security owing to the increasing levels of interpersonal violence, drug use and addiction, and forced and involuntary labour (including trafficking and sexual exploitation), all of which involve numerous human rights violations. This fertile criminal ecosystem, coupled with access to new technologies, has led to additional criminal industries emerging. This can be seen with the phenomenon of cyber scamming, where victims are trafficked under false promises of employment, held against their will and forced to engage in online scamming operations targeting individuals in South East Asia and globally.<sup>11</sup>

The situation builds upon decades of insurgencies and mediation attempts, as seen with the ceasefires of the 1990s, which directly supported – and more deeply embedded – illicit economies within regional political structures.<sup>12</sup> These long-standing alliances and beneficial arrangements expose a political economy in which access to criminal markets is the result of state building, peace-making and competing visions of nation and sovereignty. Illicit proceeds support the bargains and broker deals that divide out sovereignty, power, rights and other critical elements of security and peace in border areas that have seldom or never been free of contestation.

The Global Organized Crime Index (OC Index) ranks Myanmar as the highest scoring country for criminality, revealing six main criminal markets that are fuelling illicit economies, namely arms trafficking, human trafficking, flora and non-renewable resource crimes, and the heroin and synthetic drug trades. All these have a severe negative influence on Myanmar society, are highly profitable, and dominate the country's economy. Figure 2 shows how scores for these markets have changed between 2021 and 2023, and adds regional and global context.



**FIGURE 2** Criminal markets in Myanmar, 2021 and 2023.

SOURCE: GI-TOC, Global Organized Crime Index 2023, <https://ocindex.net/2023>

Between the 2021 and 2023 editions of the OC Index, Myanmar’s global ranking for criminality moved up from third place to first place, with a score of 8.15, an increase of 0.56 points. A closer analysis of the data (which combines the scores for criminal markets and criminal actors) reveals that although Myanmar’s ‘criminal actor’ score was higher (8.60, +0.48), it was the increase of its ‘criminal market’ score (7.70, +0.65) that drove the increase. Non-renewable resource crimes (9.0, +2.50), human trafficking (8.50, +2.0) and flora crimes (8.50, +1.50) saw the greatest increases. However, the three top-scoring criminal markets were the synthetic drug trade (10.0, +0.50), the heroin trade (9.50, no change) and arms trafficking (9.0, +1.0). These three scores show not only that the situation is the same as in 2021 but also that it has remained at or very close to the worst level of observed criminality.<sup>13</sup>

This section gives a brief overview of the current dynamics of these illicit economies and the actors involved, how they have shifted since the coup and their role in both Myanmar’s crime–conflict nexus and the country’s regional political economies.

## Flora and non-renewable resource crimes

There is global demand for many of Myanmar's natural resources, including timber, jade, gold, rubies and an array of rare-earth minerals. Revenues from the extraction and sale of these resources have long been diverted away from development and social services and are instead used to fund EAOs and the Tatmadaw (both of whom dominate these resources in the territories they control) and also for the personal enrichment of political elites and both state and non-state-embedded actors.<sup>14</sup> The National League for Democracy government focused on bringing Myanmar's natural resources under civilian control.<sup>15</sup> However, since the coup in February 2021, criminal networks both within and outside Myanmar have benefited from the (albeit limited and arguably ineffective) existing transparency mechanisms being dismantled.<sup>16</sup>

These illicit economies are largely facilitated by corruption, with both domestic and foreign mining and timber entities being required to partner with either the Myanmar Timber Enterprise or the Myanmar Gems Enterprise.<sup>17</sup> These state-owned enterprises are tasked with regulating the harvesting or extraction of natural resources and have strong affiliations with the Tatmadaw and are thus pivotal generators of revenue for the military government. Both are complicit in the illicit economy through a combination of corrupt subcontracting, partaking in the mislabelling and underquoting of volumes, and classic kleptocracy.<sup>18</sup>

Although the extent of involvement is disputed, EAOs also profit from the illicit trade in timber.<sup>19</sup> For example, profits earned from stakes in logging concessions, royalties paid by logging companies for access to forests, and the charging of rents or corrupt payments along trafficking routes and border gates all help to fund these groups. Despite increased enforcement on both the Chinese and Myanmar side of the border prior to the coup, leading to reduced flows, these have ceased, and evidence is emerging of increased smuggling activity.<sup>20</sup>

In April 2021, following the military's violent suppression of pro-democracy protests, the US imposed sanctions on the state-owned timber and gem enterprises in an effort to curtail the Tatmadaw's revenue flow from these resources.<sup>21</sup> The governments of Canada, Switzerland and the UK, along with the EU, followed by imposing their own suite of sanctions. Despite this, there is evidence of US, Italian and Dutch companies having imported Myanmar teak in 2023.<sup>22</sup> In fact, countries with economic sanctions in place accounted for 17% of Myanmar's total timber trade in that year.

Since the primary destination markets for Myanmar's natural resources are China and India, neither of which have imposed sanctions, there appears to still be a healthy trade in timber and jade. Jade has long been a source of wealth for the military and various EAOs, with the industry generating an estimated US\$31 billion a year in exports, which accounts for around 70% of the global trade.<sup>23</sup> It is estimated that 70%–90% of Myanmar's jade is destined for China,<sup>24</sup> along with 50% of the country's timber, while 20% of timber is shipped to India.<sup>25</sup> The Kachin Independence Organization, which is fighting against the Tatmadaw for the retention of their ethnic homeland, has risen as a dominant force in jade mining and is supervising extraction in Kachin State, where the mines are located.

While the Tatmadaw's influence in and around the jade mines has waned, it is still significant and they continue to benefit financially from the industry, as does the Karen Independence Organization.<sup>26</sup> Revenues are generated through extorting the mining companies for protection money, charging taxes to allow smuggled jade to pass through their checkpoints and through stakes in some of the mining



Profits earned from illegal logging help fund Myanmar's ethnic armed groups. © Ye Aung Thu/AFP via Getty Images

companies.<sup>27</sup> The Tatmadaw has also received funds raised by the sale of jade at the biannual gem emporiums organized by the Myanmar Gem Enterprise. Owing to the high values involved in the jade industry, it is a major conflict-supporting resource sector, with deep involvement of both the Tatmadaw and EAOs.<sup>28</sup> However, since the coup, the revenue generated by the gem emporiums has declined, with only merchants and companies with ties to the SAC able to attend the fair.<sup>29</sup>

Owing to the resulting economic benefits to the Chinese economy, Beijing has long tolerated the illicit trades in Myanmar timber, gemstones, rare-earth minerals and wildlife products across its border.<sup>30</sup> Ethnic rebel groups are also involved and benefit financially through the charging of taxes. There is also a geostrategic benefit to China in keeping both the EAOs and the Tatmadaw on side given the need for continued access to the Sino-Myanmar pipeline that connects Yunnan Province in China to the Bay of Bengal.<sup>31</sup>

Although deep tensions exist between the Tatmadaw, who control the pipeline, and the EAOs whose territories are being encroached by the military, attacks on the pipeline, and Chinese infrastructure in general, have been rare. However, the status quo appears to be shifting as China moves to support the military regime through increased pressure on groups such as the Myanmar National Democratic Alliance Army, United Wa State Army and the Ta'ang National Liberation Army. This has included border crossings being closed to restrict the flow of goods between China and northern Shan State in an effort to undermine the fighting effectiveness of these organizations.<sup>32</sup> In return, Beijing has demanded changes to Myanmar's laws to facilitate the deployment of armed Chinese security guards to protect their cross-border investments.<sup>33</sup> Such moves, although predominantly geostrategic in nature, are likely to impact the illicit flow of environmental commodities from Myanmar into China.

## Human trafficking and cyber scamming

The influence of human trafficking markets in Myanmar has markedly increased since the coup, with the country's OC Index score for this indicator having climbed to 8.50 in 2023, up 2.0 points from 2021.

The growth has been driven by factors on both the supply and demand sides of the market. For example, the lingering socio-economic effects of the COVID-19 pandemic and the ongoing conflict, which has led to 2.6 million internally displaced persons,<sup>34</sup> have increased the number of vulnerable people seeking economic opportunities and safety. Together with the collapse of law and order, the situation has opened opportunities for criminal groups to look to forced labour for not only traditional industries such as palm oil and rubber extraction, timber harvesting and jade mining, but also criminal industries such as cyber scamming.<sup>35</sup>

The ongoing conflict and the need for recruits are also driving an increase in human trafficking within Myanmar. The SAC's decision in February 2024 to bring the long dormant 2010 People's Military Service Law into force has compounded the problem, leading to thousands of people fleeing to areas outside the control of the SAC or to neighbouring countries to avoid conscription, which increases their vulnerability to human trafficking.<sup>36</sup> Furthermore, there are reports from conflict-affected regions of Myanmar that both the Tatmadaw and EAOs,<sup>37</sup> such as the Myanmar National Democratic Alliance Army, Shan State Army North, Shan State Army South and the Shanni Nationalities Army, are forcibly recruiting civilians, including women and children, to fight or to act as human shields.<sup>38</sup>

As with other South East Asian countries, cyber scam compounds have proliferated in Myanmar since the COVID-19 pandemic.<sup>39</sup> They are run by both foreign criminal actors and local networks who rely on large numbers of people being forced to participate in the operation of these criminal enterprises. The volume of people required to operate these facilities has thus fuelled regional demand for people from both within Myanmar and abroad. The global reach of these scam centres, in terms of their target markets and the volume of people from around the region being forced into working in these facilities, has led to a shift in thinking of the impact of Myanmar's role in the process now being viewed not just as a regional matter of concern but rather as a threat that extends to potential global consequences.<sup>40</sup>

Through the use of violence and other coercion tactics, the victims of these human trafficking operations are forced to partake in online scamming activities that target individuals in countries across Africa, Asia, Europe and the Americas.<sup>41</sup> Both the Tatmadaw and non-state actors, such as the Karen Border Guard Force (now the Karen National Army),<sup>42</sup> receive significant financial benefits from the scam centres operating within their territories, and in return provide protection to the criminal groups.<sup>43</sup>

Most scam compounds are located in border enclaves controlled by non-state armed groups,<sup>44</sup> including areas under the control of the United Wa State Army in Shan State, zones controlled by the Karen Border Guard Force in Myawaddy township, Kayin State, and territories directly administered by the SAC, such as Tachileik in Shan State. Until its capture at the end of 2023, the Kokang Self-Administered Zone in Shan State was a particular hotspot for scam centres, with Chinese and Kokang mafia-style groups being the controlling actors until the arrests and extradition of key Kokang leaders and Chinese nationals in early 2024.<sup>45</sup> However, scam compounds are moving to new areas of Myanmar, away from the borderlands, as they adapt their operation to the changing dynamics in the country.<sup>46</sup>



Border regions such as Mongla, whose Venetian Casino has been described as a melting pot of sex, drugs and gambling, have seen a surge in criminal activity since the 2021 coup. © Ye Aung Thu/AFP via Getty Images

As these scamming operations are conducted online, there is no geographical limit to their reach. Their growth led to INTERPOL issuing a global warning in 2023 'regarding a serious and imminent threat to public safety'.<sup>47</sup> In response, governments as far afield as Canada, the UK and the US have imposed coordinated sanctions on individuals and entities for their involvement in these scam compounds in Cambodia, Laos and Myanmar.<sup>48</sup>

In 2023, Beijing took an interventionist approach in response to the growing phenomenon of cyber scamming and forced criminality along the China–Myanmar border targeting Chinese citizens.<sup>49</sup> Thailand has also taken unilateral steps to address cyber scam centres by cutting off internet access in border regions and cutting off power supplies to Myanmar border towns.<sup>50</sup> However, the effectiveness of such interventions appear to be minimal.

There has also been cooperation between regional neighbours, with Thailand engaging in joint operations with Chinese and Myanmar authorities to facilitate the repatriation of 900 Chinese nationals rescued from scam compounds.<sup>51</sup>

## Arms and ammunition smuggling

Myanmar has long been a source and destination country for arms trafficking.<sup>52</sup> This has been driven by a high domestic demand for weapons due not only to the many ethnic conflicts over the decades, but also to the proliferation of drug trafficking and other criminal activities where firearms are used along trafficking routes as a means of protection.<sup>53</sup> Indeed, the 2023 OC Index data reveals a positive correlation between arms trafficking and the influence of criminal markets, especially in countries scoring high on state fragility. This is particularly true for Myanmar, which has the highest correlation score for arms trafficking and criminal markets globally.

The demand for arms and ammunition has increased substantially since the escalation of fighting following Operation 1027. Both state and non-state actors are, to varying degrees, becoming increasingly reliant on the illicit market due to constrictions in official or quasi-official supply chains that provide the necessary spare parts and equipment to sustain their ability to fight. In 2021, the UN General Assembly adopted a non-binding resolution calling on 'all member states to prevent the flow of arms into Myanmar', although it is doubtful that the UNSC will be able to adopt a similar resolution, owing to the political positions of China and Russia.<sup>54</sup> This has left member states to impose their own sanction measures. However, the absence of UN-imposed sanctions targeting the arms trade means that there are no restrictions on third-party countries from engaging with sanctioned individuals or institutions within Myanmar.

Despite the limited effectiveness of these sanctions, they have, along with the General Assembly resolution, made the SAC reliant on a shrinking number of jurisdictions through which it can source military equipment.<sup>55</sup> For example, following investigations by the government of Singapore into the export of arms by local entities, there was a 90% drop in exports by Singapore-based suppliers to Myanmar.<sup>56</sup> Consequently, there has been an 116% increase in exports of military equipment from businesses based in Thailand, making Thailand the SAC's leading source of arms and ammunition.<sup>57</sup> However, in July 2024, the government of Thailand announced that it would set up a task force to enhance due diligence capabilities of its financial institutions to investigate transactions in its jurisdiction that may be connected to the purchase of weapons in Myanmar.<sup>58</sup> If the supply of military equipment from Thailand is also reduced, the SAC may be forced to rely on alternative sources of supply, likely from China, Russia and Vietnam, as well as a possible increased dependence on the illicit economy.

The so-called people's defence forces – an umbrella term for more informal armed groups that were established following the 2021 coup<sup>59</sup> – appear more reliant on the informal economy for their supply of arms and ammunition than the Tatmadaw. They source arms and ammunition through manufacturing within Myanmar, capturing arms from the Tatmadaw, and smuggling arms from neighbouring countries.<sup>60</sup>

Within Myanmar, the military maintains control of all manufacturing and assembly of weapons and no private arms manufacturing companies are permitted. Private manufacturing predominantly takes place in northern and north-eastern Myanmar by the Kachin Independence Army and the United Wa State Army. The weapons are then sold through intermediaries to people's defence forces across Myanmar, who lack the formal structures and organization to acquire weapons from abroad.<sup>61</sup> These groups are also involved in the manufacturing of arms, with production facilities reportedly being run by defectors from the military. However, following successive military defeats of the Tatmadaw, the need to manufacture weapons appears to have subsided given the volume of weapons captured from the retreating army. Such weaponry is either retained by the group which captured it, or sold to other armed groups through informal channels.<sup>62</sup>

For many years Myanmar has been a source country for the flow of illicit arms to Indian insurgents in the Indian states of Mizoram and Manipur. However, the current demand for arms within Myanmar has led to a reversal, with arms now being shipped from Mizoram into Chin State in Myanmar.<sup>63</sup> Arms are also smuggled into Myanmar from neighbouring countries, including Laos and Thailand.



Laos acts as both a source country for arms from the Golden Triangle Special Economic Zone and a transit country for arms coming in from China.<sup>64</sup> In the case of Thailand, weapons known as 'welfare guns' are purchased in that country before being shipped in volume across the border into Myanmar.<sup>65</sup> It is also possible that corruption in Thailand's police force and military has facilitated the leakage of military-grade weapons from the country's security-force armouries, which have subsequently been trafficked across the border,<sup>66</sup> although the Thai military denies this.<sup>67</sup>

Owing to the proliferation of arms and ammunition availability in Myanmar, it is likely that a significant portion may flow into the hands of criminal actors. It is currently unclear what controls, if any, have been put in place by the various conflict actors to mitigate this risk, especially after disarmament and demobilization. The widespread availability of arms may undermine attempts at a transition to peace through, for example, the use of violence to disrupt the redistribution of power and resources.<sup>68</sup> A strategy to remove arms and ammunition from combatants during demobilization and reintegration is therefore needed.

## The heroin and synthetic drug trades

Myanmar is one of the largest production centres for the supply of heroin and methamphetamine globally, with most production concentrated in Shan and Kachin states along the China and Thailand borders. These regions benefit from good transport infrastructure to destination markets in China to the north, Bangladesh and India to the west, and Laos and Thailand to the south, both of which act as transit countries for onward trade to the wider South East Asia region, Australia and the Pacific Islands. China and India have been key supply markets for precursor chemicals for the Myanmar drug trade, although China claims to have taken steps to strengthen its export regime, which included imposing licensing controls on 24 precursors on 1 May 2024.<sup>69</sup> Despite this, Chinese companies remain a major global supplier of these chemical building blocks for the production of synthetic drugs, including methamphetamine and ketamine.<sup>70</sup>

It is unclear what impact the coup has had on the drug trade in Myanmar. The prevailing narrative that opium cultivation and methamphetamine production have increased significantly since 2021 is largely based on a combination of seizure data, satellite imagery and purity and price data, which has been extrapolated to estimate the size of the market.<sup>71</sup> Although such data can be helpful in determining the size of an illicit economy, there have been little to no interviews with people in and around the drug trade within Myanmar since 2021, including perpetrators, victims and locals with a good knowledge of the environment. This is coupled with a lack of reliable baseline data about the size of Myanmar's drug economy prior to the coup, due in part to past efforts underestimating its size.<sup>72</sup> Consequently, it has been difficult to create an objective understanding of the trends and changing dynamics of the drugs trade, the motivations of the actors involved and the trade's role in Myanmar's regional political economies.<sup>73</sup>

The long history of conflict between the various armed groups within Shan and Kachin states has led to islands of impunity for organized crime groups involved in the drugs trade, with market control being a prime conflict driver.<sup>74</sup> Myanmar's drug markets are characterized by internal politics, with armed belligerents accusing each other of participating in the drugs trade while portraying themselves as clean. Although it is understood that certain armed groups participate in the drugs

trade, the extent of involvement can be difficult to ascertain. For example, while the Arakan Army appears to benefit from methamphetamine trafficking through the Rakhine–Bangla border region, it is unclear whether they are in fact producers of the drug, although it is an accusation used by the Tatmadaw to undermine the resistance group.

In Shan and Kachin states, the production of heroin and methamphetamine provides the necessary revenue, both directly and indirectly, for local political organizations to fund social services (albeit limited in nature), while also helping to sustain and expand their conflict operations. With fighting continuing to escalate, these actors may increasingly rely on revenue from the drugs trade to fund their activities. However, some local political organizations forgo taxation on opium completely, fearing that it could undermine local support due to the harm the trade has on communities.<sup>75</sup> For example, the Kachin Independence Organization prefers to instead raises revenue through the taxation of jade, timber and gold.<sup>76</sup>

It is clear that the heroin and methamphetamine markets in Myanmar are not only highly profitable, but also dominate some regional economies and influence internal power dynamics. Despite bringing socio-economic benefits such as job opportunities for those engaged in growing opium, these markets exert a severe negative influence on society. There is also the constant threat of direct physical harm to individuals and the impact of violence on communities.<sup>77</sup> Moreover, both the cultivation of opium and the production of heroin and methamphetamine are environmentally harmful owing to improper disposal of the highly toxic waste. While these economies perpetuate in Myanmar they will continue to inflict political and structural harms to the balance of power and the country's reputation abroad.



## MYANMAR'S CRIME-CONFLICT NEXUS

**M**yanmar's criminal ecosystem consists of various actors who profit from illicit economies. These include national and foreign criminal networks, corrupt local and national state-embedded actors, and state and non-state groups, including the Tatmadaw and various EAOs, many of which hold controlling shares in illicit businesses.<sup>78</sup> Many of these ethnic rebel groups also generate revenue through charging taxes and rents for goods transiting through their territory, a practice that is widely seen as a legitimate source of income for them. Income generated from these sources allow non-state actors in Myanmar's ethnic regions to wage war while buttressing their capacity to act in state-like ways, such as providing resources to local populations, including education, employment and security. The need to balance military funding with the provision of social services has posed a long-standing challenge for these groups. This is true even during the ceasefires, where EAOs largely remained on a war footing, although their capacity to fund social services in their regions has significantly declined as fighting has intensified.<sup>79</sup>

The imposition of economic sanctions following the coup, the loss of external investments and the loss of control over billions of dollars of natural resources have forced the SAC to establish new sources of funding to support its war effort, which may include the illicit economy. Owing to the potential revenue from such economies, and the financial and political costs associated with clamping down on them, there has been little incentive for the parties involved in the conflict, including the SAC and the National Unity Government, to do so while fighting continues. However, the nature and extent of involvement differ between actors, with some engaging directly by controlling the means of production for illicit commodities, while others act more indirectly, such as by generating profits as illicit commodities transit through their territories. There is also emerging evidence of some EAOs working to reduce illicit economies in territories they have taken control of.

This section explores the role of Myanmar's illicit economies in the ongoing conflict and lessons that can be drawn from past ceasefires to increase the viability of a post-SAC political settlement. It also highlights the breakdown of Myanmar's governance structures and the need to address these to address the challenge of the country's illicit economies.

Members of the Karen Border Guard Force take part in a crackdown operation on illicit activity linked to scam centres in Myawaddy. © STR/AFP via Getty Images



## Crime, conflict and ceasefires

Our understanding of the impact of criminal agendas on negotiated ends to conflict have developed over time, based on learnings from the civil wars in Kosovo, Sierra Leone and Nigeria, among others. No longer are criminal actors seen solely as spoilers of peace, but also as partners in peace.<sup>80</sup> This was demonstrated by the negotiations between the Government of Colombia and the Revolutionary Armed Forces of Colombia.<sup>81</sup> However, the risk of unintended consequences remains, as seen in Colombia, where the consequence of 'peace' has been the rapid and widespread growth of the cocaine trade. A long-term approach is therefore needed.

The state of the illicit economies in Myanmar and the roles of those involved are particularly complex. The current situation builds upon the decades-long insurgencies that have led to complex political economies across the country, most notably in the conflict-affected borderlands. Past efforts of conflict de-escalation, as seen with the ceasefires of the 1990s, directly supported – and more deeply embedded – illicit economies within regional political structures, a process known as 'ceasefire capitalism'.<sup>82</sup>

The brokering of these ceasefires, and the consolidation of local power dynamics facilitated by criminal markets and the profits that flow from them, thus plays an important part in determining security in these areas. In other words, illicit proceeds do more than fund conflict; they also support the bargains and brokered deals that divide out sovereignty, power, rights and other critical elements of security and peace in border areas that have seldom, if ever, been free of contestation. The deferral of difficult decisions to address Myanmar's illicit economies as part of past ceasefire negotiations has allowed these economies to perpetuate and become woven into the fabric of governance alongside other features of embedded criminality, including violence and social decay.

It has been argued that these illicit economies have provided the necessary political stability to forestall conflict in these regions, and that any attempt at suppressing them risks provoked grievances among the stakeholders involved, thus leading to new forms of conflict.<sup>83</sup> However, for Myanmar to move towards sustainable peace and a national identity, there is a need to address these illicit economies, especially since they are a prominent feature in the Tatmadaw's divide-and-rule strategy.

One critical shift in the current conflict has been the loss of the SAC's ability to exert influence in the ethnic regions, meaning that the quid pro quo approach of past ceasefires, where armed groups agree to a ceasefire in exchange for access to the country's illicit economies, may no longer be possible. Indeed, the shifting power dynamics brought about by the successes of the EAOs is likely to entrench power into regional pockets, reducing the ability of any future government in Naypyidaw to persuade

regional leaders who are engaged in illicit economies to renounce this source of funding. This is seen already in bilateral relations where China, Thailand and Bangladesh are starting to engage directly with local 'authorities' in the border regions, bypassing the SAC, to explore ways of managing the borders to protect against the conflict and illicit economies spilling over into their territories.<sup>84</sup>

This diffusion of political power into the ethnic regions creates two interrelated challenges for Myanmar. The first relates to the role of illicit economies in a future political settlement when the current conflict ends. In many regions, there are multiple armed groups with competing ideologies fighting for regional control. The second is how to ensure the viability of a future government in a complex political ecosystem balancing competing peace, crime and governance priorities where its influence is severely curtailed.

On the first point, it is important to note that 'anti-junta' is not necessarily synonymous with 'pro-democracy'. Although a strong, peaceful, democratic and federal Myanmar is the stated goal of many of the resistance armies,<sup>85</sup> a patchwork of conflicting political priorities exists among the country's various ethnic groups. For example, the objective of a number of EAOs, including the Karenni Army, Kachin Independence Army and Karen National Liberation Army, is not only the defeat of the SAC, but the political autonomy of their ethnic regions, which sits in contrast to the political aims of the National Unity Government.

However, such differences in the political aims of the EAOs is unlikely to lead to the 'fracturing' of Myanmar. Indeed, the events of 2024, namely the cooperation seen between the various resistance armies, the consolidation of control by EAOs over their territories and the associated deepening of governance structures,<sup>86</sup> have shown that the ethnic groups can operate together without the support of the Tatmadaw. This undermines the Tatmadaw's narrative that it is the 'glue' that keeps the country together; a narrative that is used to extend domination over ethnic groups.<sup>87</sup>

The question remains of what benefit a future peace will bring to actors involved in the illicit economies, where such a peace threatens their access to resources. It is possible that criminal actors embedded within ethnic and other political groups in Myanmar may employ violence to oppose, undermine or manipulate peace negotiations in order to maintain control of their illicit sources of wealth. To mitigate this, it is essential that priorities of those who control the illicit economies are addressed holistically as part of a political transition to ensure the viability of any future peace settlement.<sup>88</sup>

However, owing to the extent to which the illicit economy is intertwined in Myanmar's political structures, it is possible that local political actors with interests in criminal markets become national political leaders in a brokered peace settlement or democratic process. If this were to happen, regional and international actors will need to explore options on how to incentivize such actors to dissociate themselves from the criminal markets and work towards their dismantlement.<sup>89</sup>

These challenges underline how, due to the crime-conflict nexus in Myanmar, there are no easy policy solutions to the challenges being faced. This introduces the second point. Any intervention in the country's illicit economies will be at a considerable political cost to whatever government is in power, not only with regard to the power dynamics between the various political actors, but also due to the socio-economic reliance of local communities on the illicit economies for their livelihoods and survival. To maintain the viability of a government during the transition period, especially a democratic one, political leaders will need to balance the competing and overlapping priorities of stability and security. In practice, this is likely to involve an extended period in which illicit economies are tolerated so as to allow a government to strengthen not only its political position but also the capacity of law enforcement and the judiciary, both of which have been decimated by the SAC.

Although such tolerance will continue inflicting economic, physical and environmental harms, these may be politically acceptable in the short to medium term so as to maintain stability while Myanmar's institutions are developed. For example, by allowing labour-intensive illicit industries, such as logging and mining, to continue, individuals can maintain livelihoods where very few options exist in the formal economy. However, such an approach cannot apply to all illicit activities. For industries that are not labour intensive, such as the production of methamphetamine or those relying on forced criminality, such as cyber scamming, the resulting human harms far outweigh any perceived economic benefit, therefore arguably justifying earlier interventions. However, being tolerant of illicit economies is not a long-term solution and will not provide the necessary stability needed for a sustainable peace. Their dismantlement needs to be an aim of any future political settlement while it should be acknowledged that any attempt to act against the interest of the illicit economies would be an intensely political act, which would bring significant risk to peace and stability in Myanmar.<sup>90</sup>

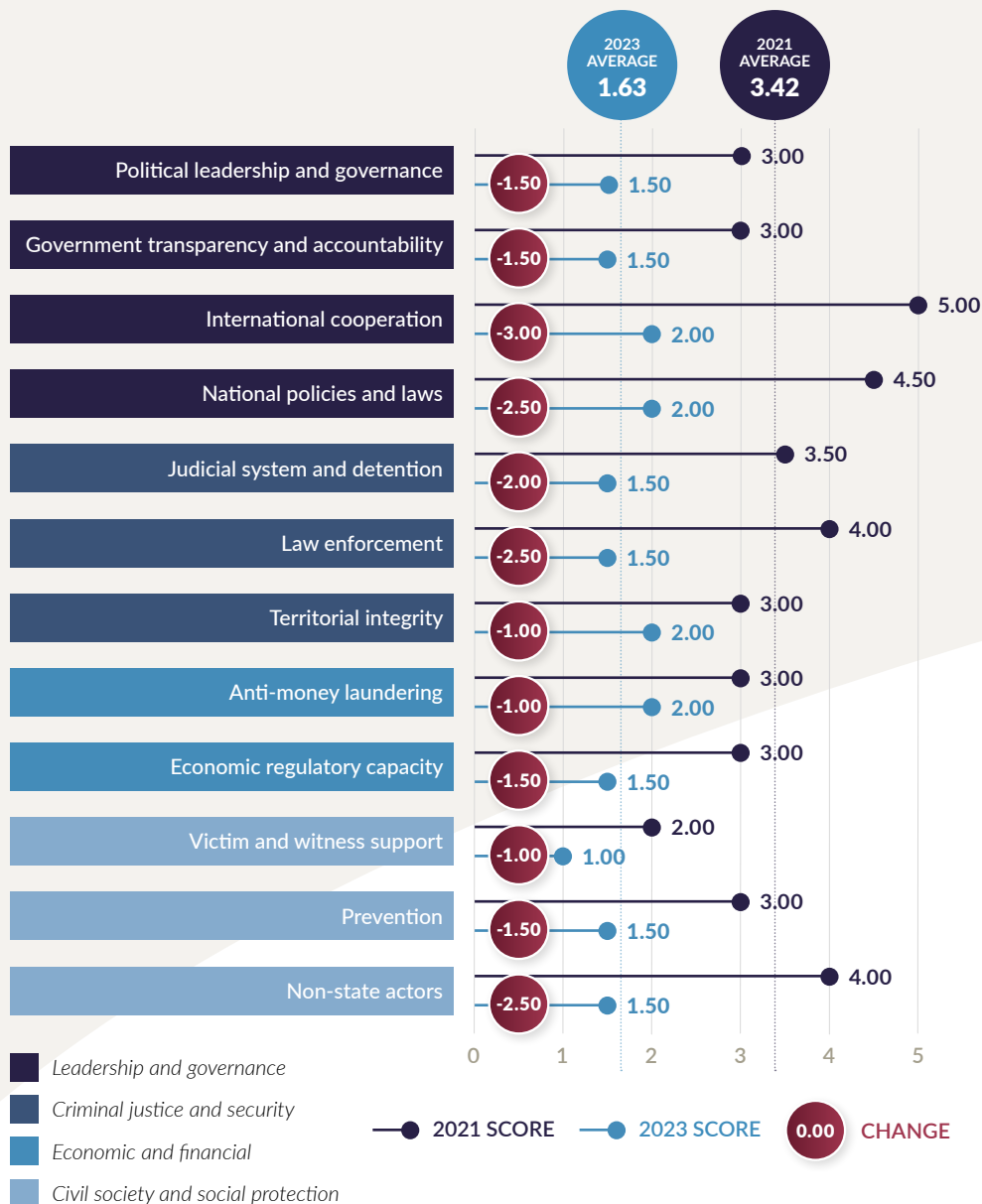
## The state of resilience

Since 2021, Myanmar's resilience to organized crime, which is the ability of both state and non-state actors to withstand and disrupt organized criminal activities, has plummeted. The collapse should not be ascribed solely to the switch from 'democracy' to autocracy. Instead, two drivers are at play: the weakening of Myanmar's governance structures under the political leadership of the SAC, and the loss of territorial control as a result of the ongoing conflict.

Although democracies predominantly exhibit higher levels of resilience to illicit economies than authoritarian states owing to the transparency and accountability inherent in democratic systems, for Myanmar, the distinction is not as clear cut. Even after the election of Aung Sang Suu Kyi's government in November 2015, the military maintained an authoritative presence in the political sphere (as per the 2008 constitution), which included retaining control of the Myanmar Police Force and by severely restricting the new government's ability to implement reform.<sup>91</sup> Indeed, the democratic transition itself, initiated in 2011 by the Myanmar military, was entirely at the discretion of the ruling generals.

Illicit economies played an integral part in the 'democratization' process as they formed a crucial element in the golden parachute the Tatmadaw awarded itself following the ascendance of the newly elected government in 2015.<sup>92</sup> Because of this, many of the reforms directed at illicit economies by Suu Kyi's government, such as improved transparency measures in the mining industry and enhanced enforcement of timber regulations, undermined the Tatmadaw's interests, who in turn worked to prejudice the reforms, generating increasing tension on both sides.

The country resilience scores in the 2023 edition of the OC Index point to a collapse in resilience in Myanmar. From its already low score of 3.42 (out of 10) in the 2021 edition, which was based on pre-coup data in 2020, Myanmar's resilience score declined to 1.63 in the 2023 edition, based on 2022 data.<sup>93</sup> This decline was seen across all the 12 resilience indicators (Figure 3). As a result, the gap between criminality and resilience in Myanmar grew from 4.17 points in 2021 to 6.52 points in 2023, giving it the largest criminality-resilience gap for any country.<sup>94</sup> This lack of political control and institutional capacity across Myanmar will present considerable challenges for a future government to address Myanmar's illicit economies, with the lack of territorial control being a major factor.



**FIGURE 3** Resilience scores for Myanmar, 2021 and 2023.

SOURCE: GI-TOC, Global Organized Crime Index 2023, <https://ocindex.net/2023>

State-embedded actors enable criminal markets to thrive amid corruption and limited government oversight, with both non-renewable resource crimes and human trafficking being the markets most closely associated with their presence.<sup>95</sup> These are part of a wider challenge related to transparency in Myanmar's business and financial systems. In October 2022, the deterioration of the state's economic regulatory environment and anti-money laundering measures led to the Financial Action Task Force (FATF) classifying Myanmar as a 'high-risk jurisdiction subject to a call for action' (i.e. the FATF Blacklist).<sup>96</sup> The only other countries classified as such are Iran and North Korea. The country has also fallen 28 places on the Corruption Perceptions Index since 2021; now ranking 168 out of 180 countries and territories.<sup>97</sup>

In addition to the strains on the economic and financial environment, the resilience of Myanmar's criminal justice system has been significantly weakened by the SAC, which has used the country's institutional frameworks to consolidate its political control, as seen in both the Myanmar Police Force and the judiciary.

While the SAC's lack of political leadership and economic mismanagement have contributed significantly to the weakening of resilience in Myanmar, the escalation in violence in the ongoing conflict has also been a considerable factor. At the time of writing, the SAC had lost control of most of the country's international borders, and controlled a diminishing proportion of Myanmar territory. As a result, the number of non-state actors controlling such territory has increased significantly since 2021. Combined with the prevalence of corruption among border officials and the mountainous terrain of the borderlands, the government in Naypyidaw has almost no control of Myanmar's borders and what is traded across them.<sup>98</sup> Meanwhile, despite seizing control of territory from the SAC, EAOs and other conflict actors are struggling to develop their own governance frameworks as a result of air strikes by the Myanmar military, which often render townships and urban centres ungovernable.





## CONCLUSION AND RECOMMENDATIONS

**A**s regional and international actors seek a settlement to the ongoing conflict and associated human rights abuses in Myanmar, it is vital that steps to address the country's illicit economies are part of a future ceasefire negotiation and peacebuilding programme. This will ensure that the mistakes of the past, such as the use of illicit economies as bargaining chips for peace, are not repeated, thus enabling steps towards breaking Myanmar's crime–conflict nexus.

While certain EAOs are achieving significant battlefield success, a victory by forces fighting against the Tatmadaw does not necessarily equate to the collapse of the SAC and a return to a pre-coup democracy in the form of the National Unity Government. The risk of inter-ethnic violence between different EAOs intent on solidifying their hard-won political influence and control over illicit economies has potential negative consequences for Myanmar's society and population, and the question of whether the Tatmadaw should remain an active player in the country's politics and what would happen to their illicit sources of wealth, especially those located in the ethnic regions, has no clear answer.

The complex patchwork of frequently competing political priorities of the numerous actors involved means that their inclusion in a peace settlement will only be the first step of the process. As this brief has shown, the various criminal markets in Myanmar represent not only enforcement challenges but also political and socio-economic ones, which demand both political and technical solutions. This will require a government in Naypyidaw that is not only committed to the reduction of the harm of these criminal markets but also has the political support from the country's various ethnic groups to do so, some of which are largely reliant on illicit economies for their wealth and power.

Any resolution, whether federal or regional, will have to rebuild both institutional and societal forms of resilience, and this is a defined area in which the international community, and UN system, could lend support. Short of a cessation of hostilities, it is worth identifying the weakest resilience points and the feasibility of engaging in some way now – or preparing for engagement when the situation allows. Such an engagement could include widening the scope of the many internationally supported local governance initiatives currently underway in Myanmar to include crime and the security sector so as to build capacities and resilience to address the issues associated with the illicit economies.

In the meantime, a vibrant and effective array of civil society organizations and individuals operate across Myanmar and in exile. This is particularly true in opposition-controlled areas, where they have an important role in providing a range of services to communities, including those impacted by the illicit economies. Although contact with civil society in Myanmar is becoming increasingly difficult owing to the escalating violence, much of what we know about the country's illicit economies, including illegal resource extraction for example, comes from reporting by independent Myanmar media and civil society organizations.

These organizations have an important role in mitigating the harms of illicit economies as well as providing the information necessary for the international community to develop effective interventions in the crisis. It is imperative that their work is both acknowledged and supported. Such support should include the provision of funding from donor countries and international organizations to ensure their work not only continues but expanded to meet the challenge effectively. A large proportion of the knowledge about Myanmar's illicit economies are within Myanmar itself, so effort must be made to help identify this research and bring it to the wider international community. Finally, as the development of effective and long-term solutions depends on the expertise and buy-in of regional actors within Myanmar, their expertise and viewpoints must be included in discussions, at the local, regional and multilateral levels, including within UN forums.



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